Investment manager says Keynesian stimulus is now dangerous

Wednesday 22 July, 2020

A British investment manager who predicted the 2007 credit crunch has warned that Keynesian economic policies followed by governments are in danger of deepening the global downturn.

David Kauders, an investment manager and analyst, said the policy prescriptions derived from the 1930s no longer work. “Keynes was right at the time” said Kauders, “but after 75 years of post-1945 application, the result – rising interest payments – now neuters any benefit.

“From trivial private sector debts post-war, credit cards, personal loans, mortgages and all forms of business borrowing are now approaching three times GDP (economic output) worldwide.

“Unlike cheap borrowing by government, the interest burden faced by the private sector has been getting more expensive. Banks are less willing to support businesses and when they do, they charge more to cover the risk of rising bad debts. Equally, some businesses are reported as not wanting to add to their debt.

“Policy advice is now trying to make the debt-saturated global economy more indebted.

“Encouraging more borrowing” says Kauders “flies in the face of common sense. People want to pay their big loans off. People now want to save instead of spend more.”

Because all advanced economies are dominated by consumption and services, when people choose to spend less and save more their national economy shrinks. Perfectly rational behaviour deepens the recession.

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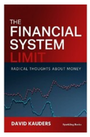

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Speaking about his latest book, *The Financial System Limit – Radical Thoughts About Money*, he said: “Credit is not infinite and debt brings with it interest cost, which in turn takes a substantial toll on economic prosperity. Already one-fifth of economic output is devoted to paying interest. This is close to unaffordable. Professional economists argue that this is just a transfer payment from one group of people to another. They overlook that ever-rising interest payments destroy those who have borrowed and make it harder to repay debt.

“The more debt that businesses and households take on, the nearer we come to the financial system limit. Cheap government borrowing is fine until it is passed to businesses and households at much higher interest rates.”

Kauders, who is credited with forecasting the 2007 crash, added: “Though it is too early to say for sure what the outcome will be, I am concerned that this poor outlook for businesses will affect pensions and thereby future incomes.”

According to the International Monetary Fund (IMF), the Covid-19 outbreak is set to wipe 6.5% off the world economy in 2020 and 2021.

But Kauders, whose book provides a radical new critique of dominant monetary and economic policies, said the resulting additional borrowing could take the world closer to its “financial system limit.”

This occurs when a country’s total debt – comprising government borrowing as well as corporate, banking and personal debt – becomes so large that the majority of its resources are used to repay the loan and not for anything else.

It means that funds which would otherwise be used for internal growth – like job creation and public services for example – are lost.

When this happens, state and work-based pensions devalue and banks increase borrowing rates as personal wealth and asset values decline.

Kauders' own
projections are based on logic and thought rather than obsolescent assumptions about how the world ought to work.

He said: "A case
study of a defaulting country in the book, showed that default occurred when 38% of economic output was spent on interest. The pandemic has already pushed interest costs up and economic output down. Few economists seem to appreciate the limits to interest cost."

Notes for editors

The
Financial System Limit
ISBN 9781907230776 will be published by Sparkling Books as an e-book on 27th July, price USD 6.99, EUR 5.99. The book is non-technical, intended for all to read. More information at www.sparklingbooks.com/limit.html

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David Kauders FRSA was
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